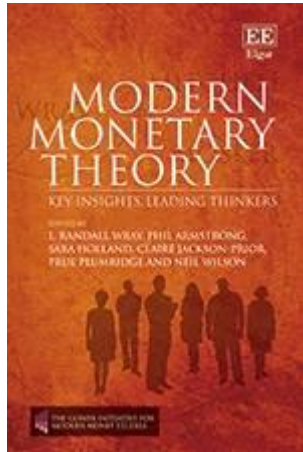


The UK Financial System

And How to Use It Properly

Neil Wilson

Editor and Contributor



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Associate Member, The Gower Initiative for Modern Money Studies

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- MMT'er since 2010

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Systems Consultant

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- Work out what's broken

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- Fix it

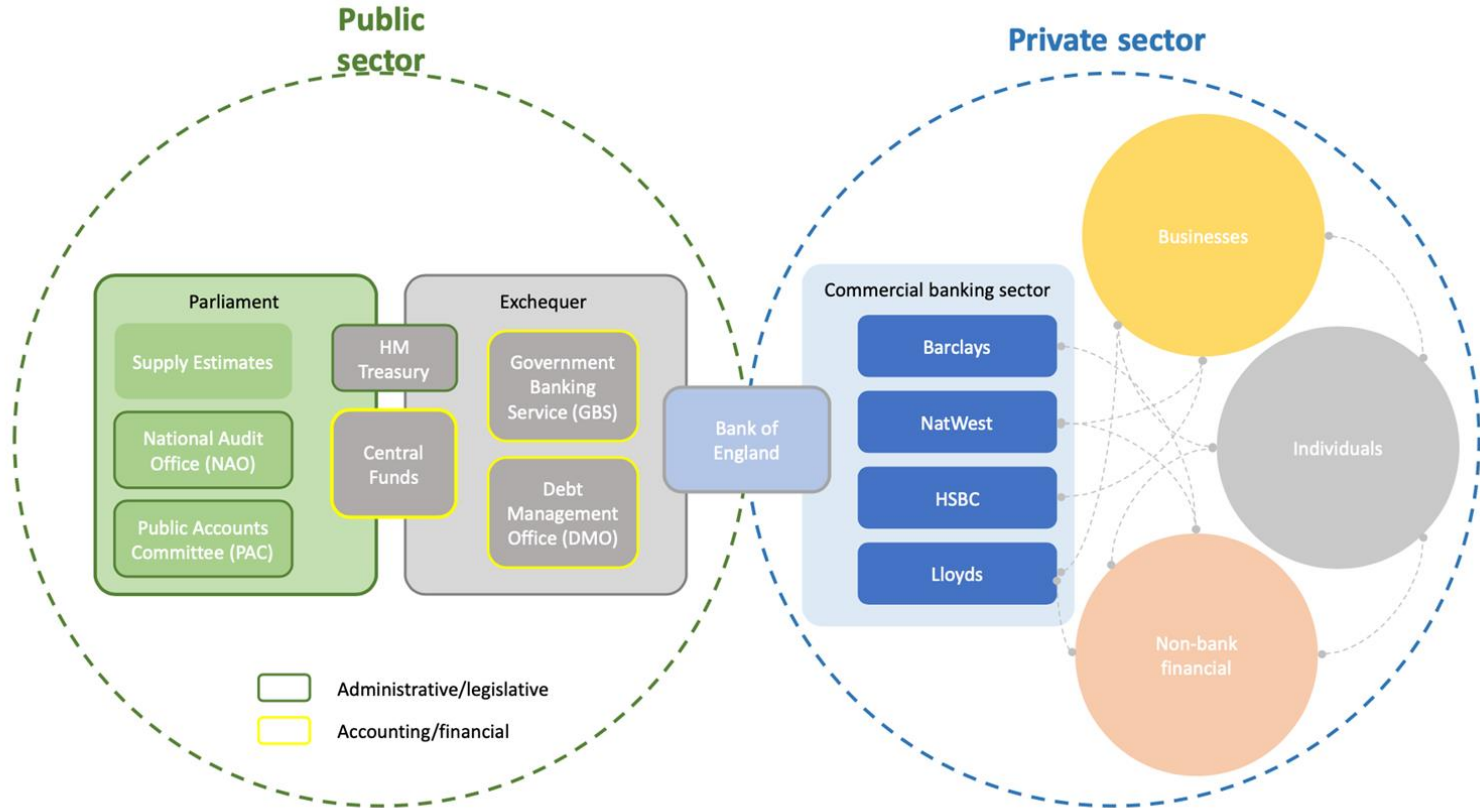
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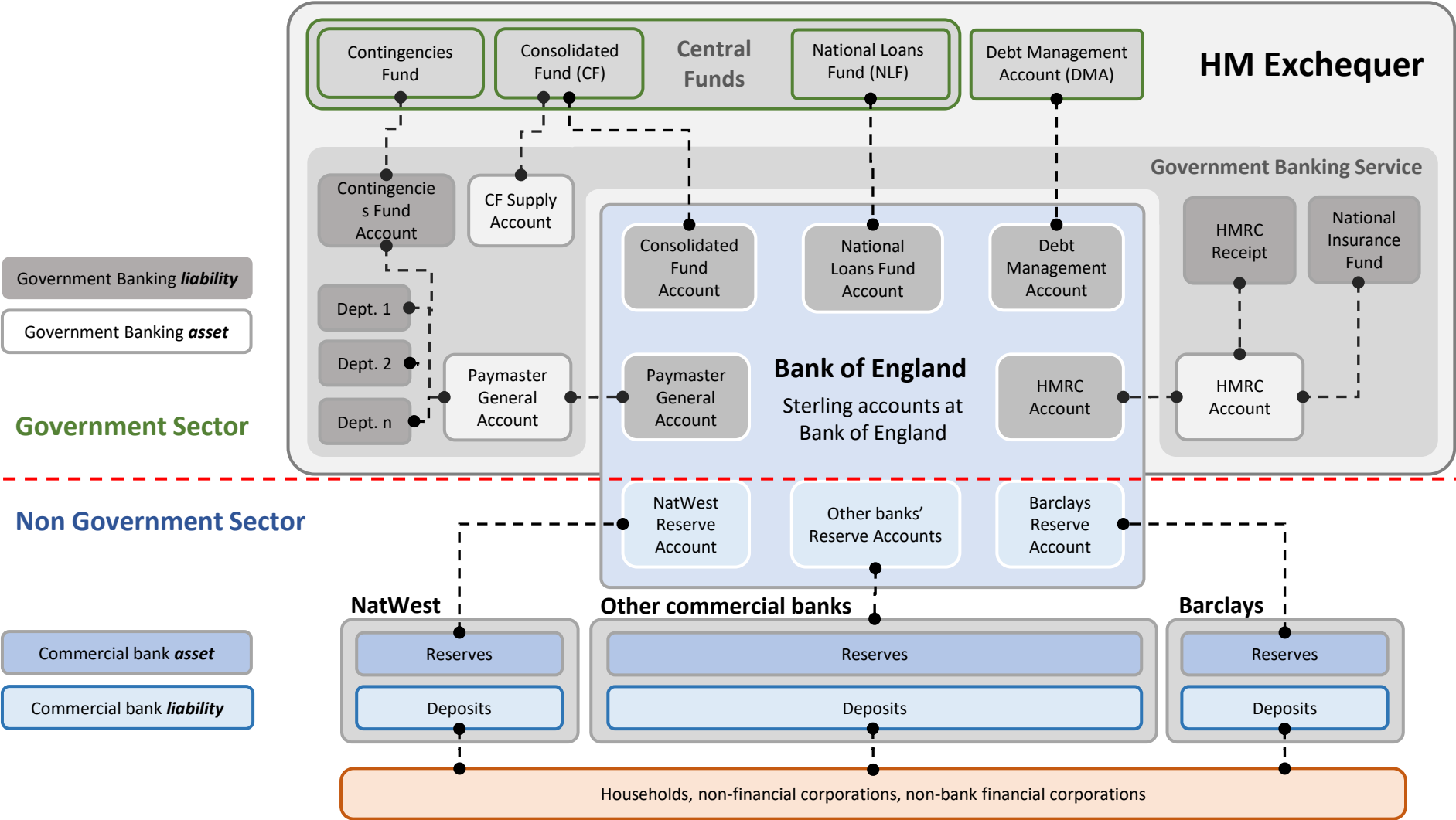
Systems Consultant

- Work out what's broken
- Fix it
- 30 years

Overview of the UK Financial System

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Parliamentary Processes

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Finance Bill

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Finance Bill

- “to consider of the Ways and Means for raising the supply to be granted to His Majesty”
- Ways and Means Resolutions in Parliament (March)
- Provisional Collections of Taxes Act 1968
- Finance Bill introduced in March and passed in June

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Supply and Appropriation Bills

- Main Estimates - May
- Supply and Appropriation (Main Estimates) Bill - July
- Supplementary and Vote on Account Estimates - February
- Supply and Appropriation (Anticipation and Adjustments) Bill - March

Government Spending

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- Net spending recorded in Ways and Means account by default

Government Spending

"The DMO ensured a positive end-of-day DMA balance for every day but one in 2021- 22; a very small (£3.9 million) overdraft was required on 13 December 2021, as a result of exceptional market-wide circumstances, requiring a temporary Ways and Means transfer from the Bank of England."

DMO Annual Review 2021-22 (p32)

Why Bank of England Act 1998 has no effect

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- Constitutional issue.

Tax Collection

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- Pulled into Exchequer Account by end of day Treasury Sweep

Government Banking Service

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- Outsourced Agency Bank replacing Office of the Paymaster General

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- External payments and receipts via Grade 3 BACS

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- Departments vote funding is 'budget money'

Government Banking Service

Barclays - Tax Collection

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Barclays - Tax Collection

- Payments to Barclays Sort Code
 - GBS Branch
- Nostro to 'the General Account of the Commissioners of Customs and Excise' or 'the General Account of the Commissioners of Inland Revenue' at Bank of England
- Settled at the Bank by transfer from source bank's settlement account

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NatWest - Government Payments

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- Settled at the Bank by transfer to the destination bank's settlement account
- Department accounts filled monthly with 'vote funding'

Debt Management Office - Process

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- DMO does cash management, via repo of short gilts and bills, to achieve a net zero cash position

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- DMO then does debt management, via auctions and syndication of longer gilts
- **Refinancing** with increasing duration
- DMO tries its best to minimise the cost of this process, given its hands are tied

Debt Management Office - Cash Management

“The DMA is used to manage the Exchequer’s net cash position.

Balances in central government accounts contained within the Exchequer pyramid are swept on a daily basis into the NLF and the DMA is required to offset the resultant NLF balance through its borrowing and lending in the money markets.

The DMA is held at the Bank of England and a positive end-of-day balance must be maintained at all times; it cannot be overdrawn.

Automatic transfers from the government Ways and Means (II) account at the Bank of England would offset any negative end-of-day balances, though it is an objective to minimise such transfers.”

Debt Management Office Annual Review 2021-2, p32

Debt Management Office - Cash Management

“KPI 1.1: Ways and Means end of day transfers for cash management purposes must be avoided by ensuring that there is always a positive DMA balance.”

The DMO ensured a positive end-of-day DMA balance for every day but one in 2021- 22; a very small (£3.9 million) overdraft was required on 13 December 2021, as a result of exceptional market-wide circumstances, requiring a temporary Ways and Means transfer from the Bank of England.”

Debt Management Office Annual Review 2021-2, p32

Debt Management Office - Debt Management Policy

“An overarching requirement of debt management policy is that the government fully finances its projected financing requirement each year through the sale of debt. This is known as the ‘full funding rule’.”

Debt Management Report 2023-24, §2.13, p 10

Debt Management Office - Debt Management Policy

“The rationale for the full funding rule is:

- that **the government believes that** the principles of transparency and predictability are best met by the full funding of its financing requirement
- to **avoid the perception** that financial transactions of the public sector could affect monetary conditions, consistent with the institutional separation between monetary policy and debt management policy”

Debt Management Report 2023-24, §2.14, p 10

How To Use It

How To Use It

Properly

What Can We Do

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The People's Priorities



What must the Government deliver in 2023?

Iain Mansfield



What Can We Do

The People's
Priorities

Policy
Exchange

What must the Government deliver in 2023?

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- Stop the price of household goods rising

What Can We Do

The People's Priorities



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- Stop the price of household goods rising
- Reduce NHS waiting lists

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- Stop the price of household goods rising
- Reduce NHS waiting lists
- Build more self sufficient energy production

Stop the Price of Household Goods Rising

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- The UK is poorer than it was

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- Wait...

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Stop the Price of Household Goods Rising

- The UK is poorer than it was
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- Subsidise the price of energy and food, levy gas guzzlers

Reduce NHS waiting lists

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- Fundamental supply side shortage of staff

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- To produce more for tomorrow, we need to do less today

Reduce NHS waiting lists

- Fundamental supply side shortage of staff
- To produce more for tomorrow, we need to do less today
- Commandeer private medical resources

Self Sufficient Energy Production

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“I believe that this nation...

Self Sufficient Energy Production

“I believe that this nation should commit itself ...

Self Sufficient Energy Production

“I believe that this nation should commit itself to achieving the goal,

Self Sufficient Energy Production

“I believe that this nation should commit itself to achieving the goal, before this decade is out...”

Self Sufficient Energy Production

“I believe that this nation should commit itself to achieving the goal, before this decade is out...”

...of becoming the world's leading exporter of green energy products

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not because it is easy, but because it is hard

Self Sufficient Energy Production

- Wind farms

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- Wind farms
- Mandate solar on every new house

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- Grid upgrades

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- Modular Nuclear Reactors

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- Tax to release required resources

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- Tax to release required resources
- Industrial Policy
- Government as 'investor of last resort'

Anchorism

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- Full Employment

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- Full Employment
- Stable Prices

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- Full Employment
- Stable Prices
- Stable Payment System

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- Full Employment
- Stable Prices
- Stable Payment System
- Maximum Policy Space

Anchorism

- Replace rate adjustments with a Job Guarantee

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- Bank Deposits are money

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- Tax Correctly

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- Replace rate adjustments with a Job Guarantee
- Bank Deposits are money
- Tax Correctly
- Allow the floating exchange rate to do its job

Anchorism

Do we want to retain the nation state and therefore democracy or do we wish to be ruled by a global superclass answerable to nobody but their bankers?

Thank You

